

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR APPROVAL OF)	CASE NO. 98-426
AN ALTERNATIVE METHOD OF REGULATION)	
OF ITS RATES AND SERVICE)	

APPLICATION

Louisville Gas and Electric Company ("LG&E"), pursuant to Chapter 278 of the Kentucky Revised Statutes, and in response to the September 12, 1997, Order of the Public Service Commission ("Commission") in Case No. 97-300 (In the Matter of: Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Merger), hereby petitions the Commission to approve an alternative method of regulating LG&E's rates and service. In support of this Application, LG&E states:

1. LG&E is a corporation organized pursuant to Kentucky law. LG&E's post office address is 220 West Main Street, Louisville, Kentucky 40202. LG&E is a utility as that term is defined in KRS 278.010(3)(a) and (b), and is subject to the Commission's jurisdiction as to its retail rates and service. Pursuant to 807 KAR 5:001 § 8(3), a certified copy of LG&E's Articles of Incorporation is on file with the Commission in Case No. 97-300, and is incorporated by reference here.

2. LG&E provides retail electric service to approximately 356,000 customers and retail gas service to approximately 284,000

customers. LG&E provides retail electric service in the following nine Kentucky counties: Bullitt, Hardin, Henry, Jefferson, Meade, Oldham, Shelby, Spencer, and Trimble. A complete list of the towns receiving electric service from LG&E is attached as Appendix A to this Application.

3. The Commission, on pages 34-35 of its Order in Case No. 97-300, in a section entitled "Future Regulation," stated:

LG&E and KU are recognized as efficient and high quality providers of electric service at rates that are among the lowest in the nation. Both companies also are well positioned financially and enjoy high debt ratings due to numerous factors including their low cost generation, desirable service territories and efficient management structures. This creates a balance of regulatory goals in the current environment of low rates and reliable service to ratepayers, and healthy returns for stockholders. However, proposals to deregulate the electric industry and the emergence of competition in both the wholesale and retail markets will create a new environment. The Commission finds that this merger is a significant and positive step to allow LG&E and KU to better address the new environment. At the same time, the Commission recognizes that as we enter this new era, traditional rate-making techniques may not ensure that ratepayers and stockholders share in the benefits of competition in the same balance as in the current environment.

Therefore, LG&E and KU shall file by September 14, 1998 or the consummation of the merger, whichever is later, detailed plans to address any future rate regulation. If either utility elects to remain under traditional rate of return regulation, it should state the reasons and include an analysis and proposals relative to its earnings at that time. Alternatively, if either utility elects non-traditional regulation, the reasons for this choice should be disclosed, along with the details of a proposal and how it will achieve the

Commission's goals of providing incentives to utilities and a sharing of resulting benefits with ratepayers. These filings will be docketed separately as new cases and subjected to investigations to the full extent necessary. The Commission will then determine, based on all relevant financial information, as well as then current economic and regulatory conditions, whether changes should be made to the existing regulation of LG&E and KU.

This Application is filed in response to that determination.

4. LG&E has elected non-traditional regulation, and is filing this Application in support of its choice. Details regarding LG&E's proposed alternative method of regulation and Electric Rate Schedule Electric Performance-Based Rate ("EPBR") Tariff are set forth in the direct testimony and exhibits of Company witnesses Victor A. Staffieri, Chief Financial Officer, LG&E Energy Corp.; Dr. Mark Newton Lowry, Vice President, Regulatory Strategy, Christensen Associates; Donald F. Santa, Jr., Senior Vice President, Deputy General Counsel, LG&E Energy Corp.; Ronald L. Willhite, Vice President, Regulatory Affairs, Louisville Gas and Electric Company; Dr. Lawrence Kaufmann, Senior Economist, Christensen Associates; and Stephen R. Wood, President, Louisville Gas and Electric Company, all of which accompany this Application and are incorporated into it by reference.

5. LG&E's proposed alternative method of regulation is based upon LG&E's performance rather than the traditional rate-of-return method. It is designed to provide customers with benefits in

addition to their current low rates, and increase the already-high level of customer service they currently receive.

Under the proposed method, LG&E is offering to withdraw its current fuel clause, and is proposing a method of regulation that:

- provides incentives to LG&E for improved performance in managing fuel costs;
- creates regulatory certainty for customers and shareholders by immediate and direct sharing of the results of improved performance in the operation of LG&E's power plants;
- shares the resulting benefits of lower fuel costs and improved efficiency in the operation of LG&E's power plants immediately with customers through an alternative procedure;
- protects LG&E's already-high quality of service and commitment to employee safety through a penalty and reward procedure that measures:
 - reliability by:
 - ◆ System Average Interruption Duration Index (SAIDI)
 - ◆ System Average Interruption Frequency Index (SAIFI)
 - ◆ Momentary Average Interruption Frequency Index (MAIFI)
 - customer satisfaction by:
 - ◆ Competitive Satisfaction Survey
 - ◆ Customer Callback Survey
 - safety by the Federal Office of Safety and Health Administration reporting standards;
- preserves:

- the merger benefits of the restriction on increasing base rates for five years;
- the anticipated fuel cost savings from the joint dispatch of the generation units;
- the merger surcredit;
- gives LG&E greater marketing flexibility in offering new or different services to its customers; and
- accomplishes all of this without any additional risk to customers.

6. LG&E's proposal meets the long-term needs of its customers for low rates and excellent service. LG&E's proposal also meets the Commission's goals of "providing incentives to utilities and a sharing of resulting benefits with ratepayers," as stated in the Commission's Order in Case No. 97-300. LG&E's proposal will allow LG&E to maintain the balance of regulatory goals identified in the same Order of "low rates and reliable service to ratepayers, and healthy returns for stockholders."

7. Implementing the alternative regulation method LG&E proposes is also appropriate at this time because the electric power industry is in the process of fundamental restructuring. The long-standing presumption that all segments of the electric utility business were natural monopolies has been disproved; and it is now recognized that pervasive monopoly regulation of electric utilities is not necessarily the best way to balance the interests of the consumer and investor. It has become accepted that electricity can be generated and sold competitively, and that, even where certain

industry functions remain natural monopolies, alternative forms of regulation can better approximate what would occur in a competitive market. This is now recognized in Kentucky, which is in the process of evaluating its legislative and policy options for responding to changes in the electric power industry. See H.J.R. 95; H.J.R. 89.

8. The performance-based method of regulation proposed by LG&E thus represents a sound, long-term approach for regulating electric utilities in Kentucky, whether or not the Commonwealth chooses to implement retail choice for electricity. This method of regulation establishes incentives for maintaining both low rates and high service quality for the bundled retail electric service that LG&E currently provides. If Kentucky implements retail choice, however, this method of regulation, with modifications, can be used to provide the appropriate rate and service quality incentives for the unbundled distribution services that will remain subject to regulation.

9. The General Assembly, by Chapter 278, delegated to the Commission broad general ratemaking power over utility rates and services. Although utility rates must be "fair, just and reasonable" under KRS 278.030(1), Chapter 278 does not prescribe a particular method by which the Commission is to fulfill this statutory mandate. It is well-established that regulators may use different methods of regulation to achieve fair, just, and

reasonable utility rates. See Federal Power Comm'n v. Hope Natl. Gas Co., 320 U.S. 591, 602 (1944); Wisconsin v. Federal Power Comm'n, 373 U.S. 294, 309-10 (1963); Federal Power Comm'n v. Texaco, Inc., 417 U.S. 380, 388 (1974); Duquesne Light Co. v. Barasch 488 U.S. 299, 316 (1989) (stating that the "designation of a single theory of ratemaking as a constitutional requirement would unnecessarily foreclose alternatives which could benefit both consumers and investors"); National-Southwire Aluminum Co., Ky. App., 785 S.W.2d 503, 511 and 516 (1990).

10. While the Commission traditionally has used a cost-of-service/rate-of-return methodology to set fair, just, and reasonable utility rates, it also historically has opted to use alternative methods of regulation where it has concluded that a different methodology would be more appropriate in carrying out its statutory mandate of fixing fair, just, and reasonable rates. The Commission's practice thus has been to construe its authority to adopt alternative methods of regulation in order to fulfill its regulatory objectives in the face of changing market conditions and consumer needs. Realizing that telecommunications, gas, and electric industries will be operating in increasingly competitive environments, the Commission has construed its authority under Chapter 278 to adopt alternative methods of regulation so as to meet its regulatory objectives in response to changing market, industry, and consumer needs.

The Commission has regulated telecommunications companies through non-traditional methods of regulation since 1983, when it authorized regulation of the resale of certain telecommunications services. See In the Matter of: An Inquiry into the Resale of Intrastate Wide Area Telecommunications Service, Administrative Case No. 261, Order (September 2, 1983) (approving an application "for the removal of the prohibition against the resale of intrastate WATS and the restructuring of intrastate WATS rates"); see also In the Matter of: An Inquiry into Inter- and IntraLATA Intrastate Competition in Toll and Related Service Markets in Kentucky, Administrative Case No. 273, Order (May 25, 1984); In the Matter of: Regulation of Conventional Two-Way Mobile Telephone Services, Administrative Case No. 325, Order (April 25, 1990).

Since 1988, the Commission has used methods other than traditional rate-of-return regulation to regulate utilities with monopoly facilities. See In the Matter of: Investigation of the Kentucky Intrastate Rates of South Central Bell Telephone Company, Inc., Case No. 10105, Order (September 30, 1988).

The Commission has used alternative methods to regulate natural gas distribution companies, including Columbia Gas and Western Kentucky Gas. See In the Matter of: Modification to Western Kentucky Gas Company, a Division of Atmos Energy Corporation (WKG) Gas Cost Adjustment to Incorporate an Experimental Performance-Based Ratemaking Mechanism (PBR), Case No.

97-513, Order (June 1, 1998); In the Matter of: The Tariff Filing of Columbia Gas of Kentucky, Inc. to Implement Gas Cost Incentive Rate Mechanisms, Case No. 96-079, Order (July 27, 1998). The Commission also has approved purchased gas supply clauses in gas distribution tariffs for more than 40 years. Furthermore, in its 1995 Comprehensive Management Audit of LG&E, (Rec. III-R-7), the Commission recommended that LG&E examine performance-based regulation as a method of improving service quality, reducing costs, and improving returns. And in Case No. 97-171, the Commission incorporated an experimental performance-based regulation mechanism in approving an alternative method of regulation for LG&E's gas supply clause. See In the Matter of: Modifications to Louisville Gas and Electric Company's Gas Supply Clause to Incorporate an Experimental Performance-Based Ratemaking Mechanism, Case No. 97-171, Order (September 30, 1997).

Additionally, the Commission has approved alternative regulation in the electricity industry in at least two situations. In National-Southwire Aluminum Co., Ky. App., 785 S.W.2d 503, 510 and 514 (1990), the Kentucky Court of Appeals approved the Commission's decision to set a variable electric rate and special classifications for aluminum smelters. And, since 1978, the Commission, acting pursuant to KRS 278.030(1), has adopted and implemented a regulation requiring the use of a uniform fuel adjustment clause. See 807 KAR 5:056.

11. The Commission's Order in Case No. 97-300 required LG&E to choose whether it should continue to be subject to traditional rate-of-return regulation or elect an alternative form of regulation and, if so, provide the details of its proposal. The same Order also recognizes the current and proper balance of regulatory and financial goals, but acknowledges that future events being driven by the movement to competition will make it necessary to modify the way the Companies are regulated. The election by LG&E to be regulated by an alternative method of regulation and the corresponding filing therefore are based upon the current position of LG&E as an appropriate point to initiate performance-based regulation. Accordingly, LG&E has incorporated specific components into its alternative regulation proposal that will impose additional risks for LG&E with regard to fuel procurement, generating performance, and service quality. If the Commission, however, determines that a traditional rate-of-return review should be performed prior to or in connection with its consideration of the alternative regulation proposal, then LG&E will withdraw its election to be subject to an alternative form of regulation and will elect to continue to be regulated under traditional methods of regulation.

12. A complete copy of this Application, including its supporting testimony and exhibits, is available for public inspection at LG&E's offices where bills are paid. LG&E is giving

notice to the public of its proposed alternative method of regulation and its Electric Rate Schedule EPBR Tariff by newspaper publication and through a bill insert in monthly billings to its customers. An initial Certificate of Notice and Publication is being filed with this Application. A Certification of Completed Notice and Publication will be filed with the Commission upon the completion of this notice.

WHEREFORE, Louisville Gas and Electric Company hereby requests that the Commission, after investigation and hearing, issue an Order: (1) approving LG&E's Electric Rate Schedule EPBR Tariff with implementation effective beginning the first calendar quarter not more than 120 days or less than 30 days following the date of the Order; (2) approving the withdrawal of the Company's fuel adjustment clause after all fuel costs are collected pursuant to 807 KAR 5:056; (3) issuing final Orders that close LG&E's outstanding fuel adjustment clause cases; and (4) approving the conditions for greater tariff flexibility.


Dated: October 12, 1998

Respectfully submitted,

LOUISVILLE GAS & ELECTRIC COMPANY

John R. McCall,
Executive Vice President
General Counsel
Corporate Secretary
and
Douglas M. Brooks
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Ronald L. Willhite
Vice President
Regulatory Affairs
Louisville Gas and Electric Company
Kentucky Utilities Company
220 West Main Street
Louisville, KY 40202

CERTIFICATE OF SERVICE

This is to certify that, on October 12, 1998, a copy of the foregoing was hand-delivered to and filed with the Public Service Commission of Kentucky, and a copy was served by mail, postage prepaid, or expedited courier to:

Hon. Elizabeth E. Blackford
Hon. Dennis G. Howard, II
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Louisville, KY 40203-3208


Counsel for Louisville Gas
and Electric Company

TOWNS SERVED BY LOUISVILLE GAS AND ELECTRIC COMPANY (Electric Service)

ANCHORAGE	HARRODS CREEK	PARK LAKE
AUDUBON PARK	HEBRON ESTATES	PARKWAY VILLAGE
	HICKORY HILL	PEWEE VALLEY
BANCROFT	HILLS AND DALES	PIONEER VILLAGE
BARBOURMEADE	HILLVIEW	PLANTATION
BEECHWOOD VILLAGE	HOLLOW CREEK	PLEASURE RIDGE PARK
BELLEMEADE	HOLLYVILLA	PLYMOUTH VILLAGE
BELLEWOOD	HOUSTON ACRES	POPLAR HILLS
BLUE RIDGE MANOR	HURSTBOURNE	PROSPECT
BRANDENBURG	HURSTBOURNE ACRES	
BRIARWOOD		RICHLAWN
BROADFIELDS	INDIAN HILLS	RIVER BLUFF
BROECK POINTE	INDIAN HILLS - CHEROKEE SECTION	RIVERWOOD
BROWNSBORO FARM		ROBINSWOOD
BROWNSBORO VILLAGE	JEFFERSONTOWN	ROLLING FIELDS
BUECHEL		ROLLING HILLS
	KEENELAND	
CAMBRIDGE	KINGSLEY	ST. MATTHEWS
CHERRYWOOD VILLAGE		ST. REGIS PARK
COLD STREAM	LANGDON PLACE	SENECA GARDENS
CREEKSIDE	LINCOLNSHIRE	SHEPHERDSVILLE
CRESTWOOD	LOUISVILLE	SHIVELY
CROSSGATE	LYNDON	SOUTH PARK VIEW
	LYNNVIEW	SPRING MILL
DOUGLAS HILLS		SPRING VALLEY
DRUID HILLS	MANOR CREEK	SPRINGLEE
	MARYHILL ESTATES	STRATHMOOR GARDENS
FAIRDALE	MEADOWBROOK FARM	STRATHMOOR MANOR
FAIRMEADE	MEADOWVIEW ESTATES	STRATHMOOR VILLAGE
FERN CREEK	MEADOW VALE	SYCAMORE
FOREST HILLS	MIDDLETOWN	
FORT KNOX	MINOR LANE HEIGHTS	TEN BROECK
FOX CHASE	MOCKINGBIRD VALLEY	THORNHILL
	MOORLAND	
GLENVIEW	MT. WASHINGTON	VALLEY STATION
GLENVIEW HILLS	MULDRAUGH	
GLENVIEW MANOR	MURRAY HILL	WATTERSON PARK
GOOSE CREEK		WELLINGTON
GOSHEN	NORBOURNE ESTATES	WEST BUECHEL
GRAYMOOR-DEVONDALE	NORTHFIELD	WEST POINT
GREEN SPRING	NORWOOD	WESTWOOD
		WHIPPS MILLGATE
	OLD BROWNSBORO PLACE	WILDWOOD
	ORCHARD GRASS HILLS	WINDING FALLS
		WINDY HILLS
		WOODLAND HILLS
		WOODLAWN PARK
		WORTHINGTON

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND)	
ELECTRIC COMPANY FOR APPROVAL OF)	CASE NO. 98-426
AN ALTERNATIVE METHOD OF REGULATION)	
OF ITS RATES AND SERVICE)	

CERTIFICATE OF NOTICE

I hereby certify that I am Vice President of Regulatory Affairs of Louisville Gas and Electric Company ("LG&E"), a utility furnishing retail gas and electric service within the Commonwealth of Kentucky, which, on October 12, 1998, submitted an Electric Rate Schedule Electric Performance-Based Rate ("EPBR") Tariff to the Public Service Commission ("Commission") for approval following its investigation, consideration, and decision, and that notice to the public of the filing of the same is being given in all respects, as follows:

On October 12, 1998, LG&E's proposed Electric Rate Schedule EPBR Tariff was exhibited for public inspection at LG&E's places of business where bills are paid in the territories affected by the proposed EPBR Tariff, to wit, the following places:

<u>Location</u>	<u>Town</u>	<u>Zip Code</u>
820 West Broadway	Louisville	40202
4121 Shelbyville Road	Louisville	40207
4424 Outer Loop	Louisville	40219
4917 Dixie Highway	Louisville	40216
960 Bloomfield Road	Bardstown	40004
Highway 1638 (One mile west of Hwy. 31W)	Muldraugh	40155

and that the EPBR Tariff will be open to public inspection at said places of business.

That more than twenty (20) customers will be affected by such change by way of a change in their bills, and that, on September 30, 1998, a notice of the proposed Electric Rate Schedule EPBR Tariff, a copy of which is attached hereto, was delivered to the Louisville Courier-Journal for publication therein once per week for three consecutive weeks beginning the week of October 5, 1998, continuing the week of October 12, 1998, and concluding the week of October 19, 1998. A certificate of publication of said notice will be furnished to the Commission upon completion of the same.

In addition, LG&E will include a statement explaining the proposed Electric Rate Schedule EPBR Tariff with the bills for all LG&E Kentucky retail customers during the course of the regular monthly or bi-monthly billing cycle.

Given under my hand this 12th day of October, 1998.



Ronald L. Willhite
Vice President of Regulatory Affairs
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

TO: Pat Smith, The Courier Journal, Advertising Department

FROM: Mary Gillespie, Louisville Gas and Electric Company

DATE: September 30, 1998

RE: Legal Ad

Pursuant to Public Service Commission of Kentucky regulations, LG&E is required to run in a newspaper of general circulation for three consecutive weeks an ad giving notice of an application for approval for an alternative method of regulation of its rates and service. Attached is the text to be printed.

Please arrange to run version #1 of this ad in the Courier Journal on **Monday, October 5, and Monday, October 12, 1998**. Version #1 states that "LG&E will file...".

Please arrange to run version # 2 of this ad in the Courier Journal on **Monday, October 19**. Version #2 states that "LG&E filed..."

We will need 5 tear sheets and affidavits for each ad. Please wait until all the ads have been run and then send all tear sheets and affidavits together.

If you have any questions or need any further information, please call me at 627-2429. Please acknowledge receipt of this request either by FAX at 627-2552 or by phone at 627-2429. **I will be out of the office on Friday, so I would appreciate receiving a proof on Thursday. Please let me know if this is not possible.** Also, please send the invoice to my attention.

Thank you.

INSERTION ORDER

Headline: NOTICE TO CUSTOMERS OF LOUISIVLLE GAS AND
ELECTRIC COMPANY OF APPLICATION FOR APPROVAL
OF AN ALTERNATIVE METHOD OF REGULATION

Copy: See Attached

Size of Ad: Approximately 2 col. width, length as necessary

Publication: Courier-Journal

Rate: Please Advise

Total Cost: Please Advise

Dates(s) to run: Monday, October 5, 1998, Monday, October 12, 1998, and
Monday, October 19, 1998.


Special Instructions: Ad needs to be **prominently** displayed, with a **bold border**.
No hyphenation. **We will need to receive five (5) tear
sheets and five (5) affidavits of each ad after the last ad
runs on October 19.** Please FAX proof to Mary Gillespie at
627-3213.

DO NOT PRINT WITHOUT APPROVAL OF PROOF. Call
Mary Gillespie, at 627-2429, if you have any questions.

In order to process your invoice, we must receive the affidavits and tear sheets.
Please send these and the invoice to:

Mary Gillespie
LG&E
P. O. Box 32010
Louisville, Kentucky 40232


Mary Gillespie
Rate and Regulatory Analyst


Date

VERSION #1

NOTICE TO CUSTOMERS OF
LOUISVILLE GAS AND ELECTRIC COMPANY
OF APPLICATION FOR APPROVAL OF
AN ALTERNATIVE METHOD OF REGULATION

PLEASE TAKE NOTICE that, on October 12, 1998, pursuant to the Kentucky Revised Statutes, Louisville Gas and Electric Company ("LG&E") will file with the Public Service Commission ("Commission") in Case No. 98-426, an Application for Approval of an Alternative Method of Regulation of Its Rates and Service ("the Application"). The Application requests that the Commission approve an alternative method of regulating LG&E's rates and service, as well as an Electric Performance-Based Rate ("EPBR") Tariff. The Application, if approved, will change the method of regulating LG&E from the traditional rate-of-return method of regulation to a method based on LG&E's operating performance. The EPBR Tariff, if approved, will be applied to customers' bills so that customers will share on a timely basis in the benefits of future improved performance accomplished by LG&E.

The proposed EPBR Tariff would apply to all electric rate schedules and special contracts for electric service. The monthly amount computed under each of the rate schedules to which the EPBR Tariff is applicable shall be increased or decreased by the Electric Performance-Based Rate Adjustment Factor at a rate per kilowatt-hour of monthly consumption during the billing

calendar quarter computed as follows:

$$EPBRA(q) = EPBRA(q) / KWH(q)$$

$$EPBRA(q) = FCR + MDS + GP + SQ + BA$$

Where:

EPBRA = Electric Performance-Based Rate Adjustment Factor
EPBRA = Electric Performance-Based Rate Amount for the current quarter
FCR = Fuel Cost Recovery
MDS = Merger Dispatch Savings expressed as a credit
GP = Generation Performance expressed as a credit
SQ = Service Quality
BA = Balancing Adjustment
KWH = Kentucky jurisdictional Kilowatt-hour Sales in the current quarter
q = Current quarter shall be the second calendar quarter preceding the billing calendar quarter in which the EPBRA is billed

LG&E also is requesting that the Commission approve the withdrawal of its Electric Rate Schedule Fuel Adjustment Clause after all fuel costs are collected pursuant to the Uniform Fuel Adjustment Clause Regulation (807 KAR 5:056) and final orders are issued in the pending fuel adjustment clause cases of LG&E concurrent with the approval of the EPBR Tariff; and LG&E is further requesting that the Commission approve conditions permitting greater tariff flexibility in the future.

The Commission's Order of September 12, 1997 in In the Matter of JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF MERGER, Case No. 97-300 directed LG&E to elect whether to remain under traditional rate of return regulation or alternative regulation

and file detailed plans to address any future rate regulation. The Application, alternative method of regulation and the EPBR Tariff described in this Notice are the plan, regulatory method and tariff proposed by LG&E in response to the Commission's Order of September 12, 1997. The Commission's review of LG&E's Application may result in a method of regulating LG&E or consumer rates other than the method of regulation and rates described in this Notice.

Any corporation, association, body politic, or person may, by motion within thirty (30) days after publication or mailing of this Notice, request leave to intervene in the case before the Commission (Case No. 98-426). Any such motion shall be submitted to: The Public Service Commission, 730 Schenkel Lane, P. O. Box 615, Frankfort, Kentucky 40602, and shall set forth the grounds for the request for intervention, including the status and interest of the party requesting intervention.

Intervenors may obtain copies of the Application and corresponding Testimony by contacting: Ronald L. Willhite, Vice President of Regulatory Affairs, Louisville Gas and Electric Company, P. O. Box 32030, Louisville, Kentucky 40232-2030. Copies of the Application and Testimony will be available for public inspection at LG&E's offices where bills are paid after October 12, 1998.

VERSION #2

NOTICE TO CUSTOMERS OF
LOUISVILLE GAS AND ELECTRIC COMPANY
OF APPLICATION FOR APPROVAL OF
AN ALTERNATIVE METHOD OF REGULATION

PLEASE TAKE NOTICE that, on October 12, 1998, pursuant to the Kentucky Revised Statutes, Louisville Gas and Electric Company ("LG&E") filed with the Public Service Commission ("Commission") in Case No. 98-426, an Application for Approval of an Alternative Method of Regulation of Its Rates and Service ("the Application"). The Application requests that the Commission approve an alternative method of regulating LG&E's rates and service, as well as an Electric Performance-Based Rate ("EPBR") Tariff. The Application, if approved, will change the method of regulating LG&E from the traditional rate-of-return method of regulation to a method based on LG&E's operating performance. The EPBR Tariff, if approved, will be applied to customers' bills so that customers will share on a timely basis in the benefits of future improved performance accomplished by LG&E.

The proposed EPBR Tariff would apply to all electric rate schedules and special contracts for electric service. The monthly amount computed under each of the rate schedules to which the EPBR Tariff is applicable shall be increased or decreased by the Electric Performance-Based Rate Adjustment Factor at a rate per kilowatt-hour of monthly consumption during the billing

calendar quarter computed as follows:

$$EPBRA F(q) = EPBRA(q) / KWH(q)$$

$$EPBRA(q) = FCR + MDS + GP + SQ + BA$$

Where:

EPBRA F = Electric Performance-Based Rate Adjustment Factor
EPBRA = Electric Performance-Based Rate Amount for the current quarter
FCR = Fuel Cost Recovery
MDS = Merger Dispatch Savings expressed as a credit
GP = Generation Performance expressed as a credit
SQ = Service Quality
BA = Balancing Adjustment
KWH = Kentucky jurisdictional Kilowatt-hour Sales in the current quarter
q = Current quarter shall be the second calendar quarter preceding the billing calendar quarter in which the EPBRA F is billed

LG&E also is requesting that the Commission approve the withdrawal of its Electric Rate Schedule Fuel Adjustment Clause after all fuel costs are collected pursuant to the Uniform Fuel Adjustment Clause Regulation (807 KAR 5:056) and final orders are issued in the pending fuel adjustment clause cases of LG&E concurrent with the approval of the EPBR Tariff; and LG&E is further requesting that the Commission approve conditions permitting greater tariff flexibility in the future.

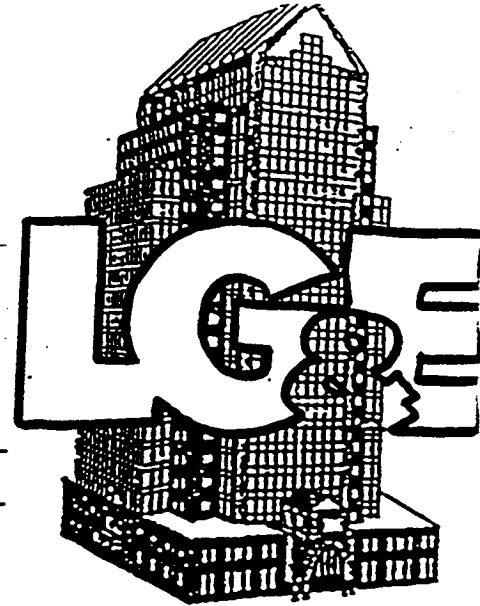
The Commission's Order of September 12, 1997 in In the Matter of JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR APPROVAL OF MERGER, Case No. 97-300 directed LG&E to elect whether to remain under traditional rate of return regulation or alternative regulation

and file detailed plans to address any future rate regulation. The Application, alternative method of regulation and the EPBR Tariff described in this Notice are the plan, regulatory method and tariff proposed by LG&E in response to the Commission's Order of September 12, 1997. The Commission's review of LG&E's Application may result in a method of regulating LG&E or consumer rates other than the method of regulation and rates described in this Notice.

Any corporation, association, body politic, or person may, by motion within thirty (30) days after publication or mailing of this Notice, request leave to intervene in the case before the Commission (Case No. 98-426). Any such motion shall be submitted to: The Public Service Commission, 730 Schenkel Lane, P. O. Box 615, Frankfort, Kentucky 40602, and shall set forth the grounds for the request for intervention, including the status and interest of the party requesting intervention.

Intervenors may obtain copies of the Application and corresponding Testimony by contacting: Ronald L. Willhite, Vice President of Regulatory Affairs, Louisville Gas and Electric Company, P. O. Box 32030, Louisville, Kentucky 40232-2030. Copies of the Application and Testimony will be available for public inspection at LG&E's offices where bills are paid after October 12, 1998.

LG&E
FACSIMILE COVER SHEET



Louisville Gas & Electric Company

From: Mary Gillespie

Telephone Number 627-2429

220 West Main Street - 5th Floor

Louisville, KY 40232

LG&E 5th Floor Fax Number: (502) 627-2552

Faxing To Fax Number: 582-4930

Company: Courier-Journal

Attn: Pat Smith

Comments: _____

Number of Pages 11 (including this cover page).

Please call _____ if you did not receive all pages. The telephone number is _____

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LAST SUCCESSFUL PAGE 011